

## OTTER CREEK – REQUEST TO INITIATE APPRAISAL AND LEASING REVIEW PROCESS

Otter Creek Coal Property

Township 3 and 4 South, Range 45 East

14 Parcels totaling 8,263.62 acres in Otter Creek Units 1,2, and 3

Common Schools Grant

Powder River County

The department is receiving substantive and credible expressions of interest relative to leasing the state's coal property in the Otter Creek project area. The key factors driving this developing interest are:

- The Federal Surface Transportation Board issued a decision on October 9, 2007 granting final approval for the remaining section of the Tongue River railroad.
- Great Northern Properties, which has a co-development agreement with the state and owns the other half of the Otter Creek coal reserves, has indicated it is in a position to move forward with development, on either a leasing or equity basis.
- Emerging market interest in the higher sodium coal present at Otter Creek has been demonstrated in two areas. First, there is strong overall demand for higher btu coal, given developing technologies to handle higher sodium. Second, there is rising potential in alternative energy markets such as dedicated facilities that convert coal to gas, liquids or electricity. For these alternatives, large quantities of high btu coal is desirable, and higher sodium levels may not be a problem.

The physical coal resource and mine development scenarios are quantified and documented in the July 2006 Otter Creek Property Summary report, prepared by Norwest Corporation. The next step in developing a lease package for competitive bid is preparing a statutorily required appraisal of the State's Otter Creek coal resource's fair market value. The appraisal provides the financial information necessary to determine the minimum bid terms that achieve fair market value for the common school trust.

The appraisal cost is estimated to be between \$25,000 and \$50,000. The department has confirmed availability of approximately \$30,000 out of FY2008 funds that could be committed to the contract costs related to the appraisal. The department anticipates that costs exceeding that amount would be covered by FY2009 funding. Completion of the appraisal is estimated to take two to three months from contract execution. Pursuant to 77-3-313 MCA, the department must distribute the appraisal for a 30-day public comment period, review comments and revise the appraisal as appropriate, and present the appraisal to the Land Board. Should the Board wish to offer the Otter Creek tracts for lease following the appraisal, the department will recommend competitive lease terms and bid process commensurate with achieving fair market value.

The department requests Land Board authorization to initiate the appraisal and leasing review process for the State's Otter Creek coal ownership.